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ON A UNIFIED THEORY OF DEVELOPMENT:
New Institutional Economics
& the Charismatic Leader

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Abstract

Rural communities face a number of compelling and specific challenges in relation to economic and social development. Issues such as declining or isolated populations, inadequate technological and commercial infrastructure, and restricted social networks are only some of the difficult challenges which must be overcome by successful development programmes; these challenges often require that unique and innovative development efforts take place. Government and third-party development organisations encourage rural development through community outreach and extension, education and training, social and economic research, and various grants and subsidised community loans. While many development efforts are structured in similar ways, there are varying degrees of success, with some outright failures. The success of a development programme differs even within similar geographies, which adds further complication to the development process. To try to enhance understanding of why this might be, we propose a focus on the role of “institutions”. Institutions are central to many rural development efforts as they offer a place of reference for community members, development researchers, and practitioners to develop a sense of norms and understanding from which to work. Over the past three decades, New Institutional Economics (NIE) has gained prominence in rural development literature through its attempt to understand how institutions allow for an efficient catalyst of economic growth in rural areas. While much advancement in rural development has been made vis-à-vis NIE theory, there is little research on which processes lead to the creation of successful indigenous institutions in rural areas. This paper argues that the creation of local institutions does not happen spontaneously, as understood by NIE theorists; rather, institutions manifest through the natural behaviour of what Max Weber called the charismatic leader. Moreover, it is maintained that the extemporaneous nature of the formation of institutions can be explained by the spontaneous virtues of the charismatic leader. Removing this specific uncertainty from NIE theory and placing it within the domain of local leadership in a rural community context allows for the exploration and advancement of a unified theory of development.

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Rural communities face a number of compelling and specific challenges in relation to economic and social development. Issues such as declining or isolated populations, inadequate technological and commercial infrastructure, and restricted social networks are only some of the difficult challenges which must be overcome by successful development programmes; these challenges often require that unique and innovative development efforts take place. Government and third-party development organisations encourage rural development through community outreach and extension, education and training, social and economic research, and various grants and subsidised community loans. While many development efforts are structured in similar ways, there are varying degrees of success, with some outright failures. The success of a development programme differs even within similar geographies, which adds further complication to the development process. To try to enhance understanding of why this might be, we propose a focus on the role of “institutions”. Institutions are central to many rural development efforts as they offer a place of reference for community members, development researchers, and practitioners to develop a sense of norms and understanding from which to work. Over the past three decades, New Institutional Economics (NIE) has gained prominence in rural development literature through its attempt to understand how institutions allow for an efficient catalyst of economic growth in rural areas. While much advancement in rural development have been made vis-à-vis NIE theory, there is little research on which processes lead to the creation of successful indigenous institutions in rural areas. This paper argues that the creation of local institutions does not happen spontaneously, as understood by NIE theorists; rather, institutions manifest through the natural behaviour of what Max Weber called the charismatic leader. Moreover, it is maintained that the extemporaneous nature of the formation of institutions can be explained by the spontaneous virtues of the charismatic leader. Removing this specific uncertainty from NIE theory and placing it within the domain of local leadership in a rural community context reconciles key social and economic theory – which, ultimately, allows for the exploration and advancement of a unified theory of development.

1. Introduction

Rural development projects have, in many cases, been successful: findings from evaluative reports of World Bank projects between 1962 and 2002 found that about 60% of projects were subjectively rated as successful by programme managers (Chauvet, Collier, Marguerite, & Duponchel, 2010). While encouraging, these findings suggests that about 40% of World Bank projects fail in accomplishing their development goals, at least when determined subjectively. Furthermore, evidence suggest that many of the most underdeveloped countries in the world are moving towards a more healthy and sustainable economic climate at a significantly slow pace (Pritchett, Woolcock, & Andrews, 2013). There are, of course, instances where

development efforts have been quite successful.¹ Still, a panacea of rural development does not, in all likelihood, exist or at least has not yet been identified.

Rural development, though oftentimes ambiguously defined, is associated with both social and economic development. It lies within both social and economic development, though it does not fall uniquely into one paradigm. Although rural development projects may include economic benchmarks or have economic underpinnings, they are not usually judged by their economic merits alone; that is, social impact matters. Ray (1998) articulated these idiosyncrasies particularly well in saying:

It is perhaps universally accepted that development is not just about income, although income (economic wealth, more generally) has a great deal to do with it. . . . This means, in particular, that development is also the removal of poverty and under nutrition: it is an increase in life expectancy; it is access to sanitation, clean drinking water, and health services; it is the reduction of infant mortality; it is increased access to knowledge and schooling, and literacy in particular. (p. 8-9)

While social scientists have made substantial progress in identifying and testing theories of rural development, some efforts seem to be left to uncertainty (Rondinelli, 2013). New development schemes may work in one community or region and fail in another, almost identical community in a demographic, economic, and socio-historical sense. Furthermore, it is difficult to accurately measure the long-term impacts of rural development projects. This is due, in part, to the overuse of assessment rhetoric coupled with the politicized nature of evaluating a programme's degree of success, as is the case of the LEADER programme in Scotland (Skerratt, 2012).

Community participation or the lack thereof – or, as is argued in this paper, the espousment of development efforts by the “wrong type of leadership” – has been identified as a major component of why many development projects fail. Botes and van Rensburg (2000) identify this as a ‘plague’ of development failure, they state:

Since many community organizations are not democratically elected, the involvement of local leaders often represent the voice of a group of self-appointed people, and may not accurately reflect the views and perspectives of the broader community. This easily runs the risk of the project being co-opted by certain groups or interests, leaving development workers with a feeling that the beneficiaries consulted were the wrong ones. (p. 46)

This paper maintains that rural development efforts predicated upon the adoption of transplanted institutions or the creation of new indigenous institutions (aimed at economic and social development) will be more successful if those community members involved in the development process are seen as legitimate leaders within the

¹ See Muhammad Yunus' work on micro-credit and poverty amelioration vis-à-vis the Grameen Bank (Yunus, 2003).

community at large. A new theory of rural development is proposed in this paper which is based on the Weberian thesis of social action and that of New Institutional Economics (NIE). Taken together, these two theoretical paradigms allow for a single theory of development centred both on non-rational social interaction and rational market participation, whereby: the non-rational quality of charismatic leadership inspires devotion from followers; this devotion evolves into normalized behaviour, which can be viewed as non-rational in a liberal economic sense; non-rational norms then bifurcate into rationalized institutions (the creation of institutions may be seen as a rational solution to transaction costs) that, by chance alone, may or may not be successful. The theoretical foundation of NIE, spontaneous order, is thus removed from the process altogether, and replaced by Weber's charismatic leader, who, while still spontaneous in nature, can be more easily mitigated by development practitioners and researchers.

Because this paper argues that Weber's (2009) traditional theories of social action and NIE can be merged into a new theory of development, an adequate review of the relevant literature on both Weber's theory of charisma and NIE must first be outlined in such a way as to guide the reader's understanding of how the two theories are inherently connected. First, an overview of the relevant history of NIE is provided, with special attention given to the major contributions over the past two and half centuries; focus is also given to the importance of spontaneous order in the creation of institutions. Next, an overview of Weberian sociological theory as it relates to social and economic theory and leadership is presented. Following this, a new theory of rural development is presented which merges charismatic leadership and NIE. Lastly, charismatic leadership is examined vis-à-vis empirical studies of rural institutions and the importance of 'the right kind of leadership.' We start with institutions.

2. Institutions

Douglas North (1990), a founding scholar of NIE as it relates to developing economies, defines institutions as, "the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction . . . [they] reduce uncertainty by providing a structure to everyday life." (p. 3) Within this context, NIE attempts to bring the macro economic theories of rational choice or equilibrium centred economics to terms with the way in which humans normalize socio and economic behaviours. NIE attempts to uncover the determinants of economic growth and development from its infantileness or stagnation to highly ordered and efficient national or international institutions.

The role of institutions in economic development has evolved into a principle theory of development in social science theory over the past decades (Richter, 2015; Ahrens, 2002). This can be illustrated by the fact that eight Noble Laureates² have contributed to the development of a theory of new institutional economics since 1972, with foundational theories dating to the 1930's. Stemming from rational choice theories on economic decision-making and social behaviour, NIE recognizes the intricate role that collective action bodies, organizations and law have in shaping societies and their subsequent economies. This paper argues that a more sustainable economic development scheme based on NIE can be achieved vis-à-vis understanding the role of social co-operation in the creation of indigenous institutions.

² See Kenneth Arrow (1972), Gunnar Myrdal (1974), Friedrich Hayek (1974), Herbert Simon (1978), Ronald Coase (1991), Douglas North (1993), Eleanor Ostrom (2009), and Oliver Williamson (2009).

In order to better understand the role of government and third-party institutions in rural development, language is borrowed from development literature on the role that *indigenous institutions* – or those institutions which are grounded in local culture and values – and *transplant institutions* – or those institutions which are transferred or delegated to rural areas from a top-down approach to growth – have in the creation of sustainable development (Dia, 1996). Sociological writings have recognized that local participation in the merger of informal indigenous and formal transplanted institutions is necessary for sustainable rural growth (Cernea, 1985; Nelson & Wright, 1995; Cornwall, 2008).

As of now, there exists a pragmatic gap in NIE theory. Classic sociological literature on the nexus between informal economic restraints and that of higher ordered bureaucratic institutions is explored here using the seminal works by Max Weber and Ferdinand Tönnies. Finally, a unified theory of development is constructed which calls for the replacement of NIE's theoretical grounding in informal and incalculable spontaneous order with that of charismatic leadership. This allows for a more unified theory of NIE, and places 'spontaneity' ex-ante to NIE, where it can more easily be identified by development practitioners and mitigated by policy makers. In order to more accurately describe how the charismatic leader may be integrated within NIE theory there must first be a review of NIE. We start with the firm.

2.1 The Firm

Coase's (1937) pivotal work, *The Nature of the Firm*, succeeded in answering a long debated question in economics: If markets are primarily driven by the price mechanism, then why do firms exist in their contemporary form? The firm can be understood as the organization of people into collective groups with the aim of reducing market transaction costs. That is, Coase's (1937) main concern is why many organizations/businesses or firms exist when they should, seemingly, not. According to the conventional theory of the time – rational-actor theory – market actors should instead obtain inputs through sub-contracts with others. This brings up an important anomaly in the neo-liberal economic paradigm. We have, under direct supervision and agency of entrepreneurs, developed spheres of influence, which aim to direct human behaviour, and this coincides within a free market. According to Coase, "The main reason why it is profitable to establish a firm would seem that there is a cost of using the price mechanism. The most obvious cost of 'organising' production through the price mechanism is that of discovering what the relevant prices are . . . the operation of a market costs something and by forming an organisation and allowing some authority (an 'entrepreneur') to direct the resources, certain marketing costs are saved." (1937, p. 390-392)

Within the context of the practice of development, firms are analogous to institutions or development organisations; Linarelli (2010) claims that institutions and organizations are epistemologically the same phenomena and may follow the same theoretical understanding. Formal community organizations, which in many cases are young when compared to other more established institutions, are institutions as defined by North (1990) in the previous section.

Extrapolating this to the community development context, questions then arise: Why do community development institutions exist when community issues should, according to

free market or equilibrium economic theories prior to Coase (1937), be handled on an individual basis? Furthermore, why would people act collectively to solve community issues? If this question is proposed in light of the aforementioned developments, one might respond by saying that: Community institutions exist because they help lower the costs of achieving a collective goal by making processes more efficient through the organization of people into ordered hierarchies. Institutions allow for issues to be handled internally, which lessens transaction costs. Community leaders can delegate tasks more efficiently because they have the necessary a priori knowledge of the goings-on within the community. People are able to act more efficiently (lower transaction costs) when firms (community development institutions) are created.

Coase built upon his theory of transaction costs and externalities in another seminal work, *The Problem of Social Costs* (1960), where it is reasoned that transaction costs associated economic externalities are the driving force behind many legal institutions (lawyers, courts, etc.). When transaction costs eclipse any monetary gain that might be had from mutual bargaining between the vested parties, a legal institution must intervene and provide a ruling which may or may not resemble the feud's Pareto optimum settlement. Coase illustrates a key concept in *The Nature of the Firm* (1937) and *The Problem of Social Costs* (1960): the costs associated with transacting in the marketplace can, under certain circumstances, be higher than one's net gain from the transaction. Within a rural development context this could mean, under certain circumstances, the costs of transaction (developing and implementing a project or programme) could be higher than the gross benefit: the status quo is cheaper to maintain than embarking on a development scheme. In this instance, institutions matter because they reduce transaction costs.

2.2 Institutions are Important

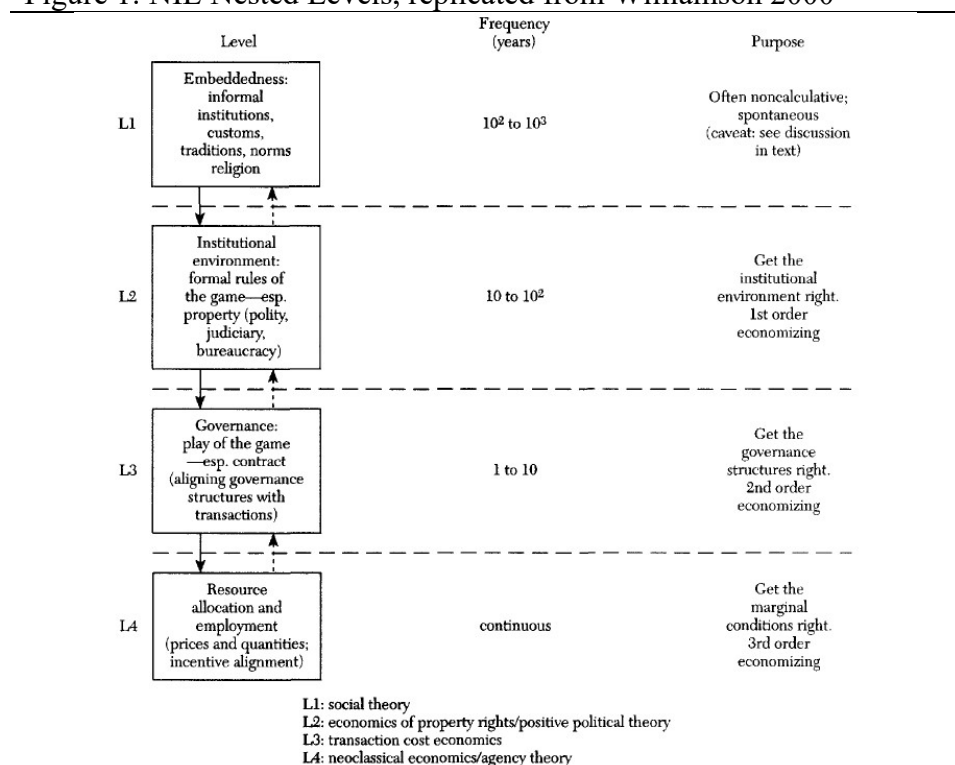
Social scientists agree that institutions are important to society and their economies – this holds true throughout most of history (North & Thomas, 1973). And, while institutions play a pivotal role in the development of market activity, relatively little is known on how and to what extent institutions develop (North, 1990; Williamson, 2000). In his ground-breaking work – *Institutions, Institutional Change and Economic Performance* (1990) – Douglas North emphasizes the importance that institutions have in shaping human behaviour. He states, “The major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction.” (p. 6) That is to say, over time people have created institutions which have, in turn, shaped the social behaviour of human interaction. This creates a seemingly Cartesian Circled logic, whereabouts human behaviour creates institutions, which constrains and ultimately drives human behaviour that, in turn, shapes institutions. However, the logic is not circular; at some point, as societies evolved from subsistence based and rural cultures to more production driven capitalist civilizations, intuitions became the logical method of control. It is within this transitional period that a gap of knowledge exists, which is crucial to the understanding of how institutions evolve, thus unifying the theory.

Oliver Williamson (2000) describes the nested structure of the evolution of intuitions by representing what he identifies as four stages of institutions, they are: Social theory, economics of property rights/positive political theory, transaction cost economics, and neoclassical economics/agency theory. Williamson's (2000) theoretical illustration is reproduced in Figure 1. Each stage is nested in the ones listed to its prior and each level fits squarely into place, allowing for a seemingly fluid unification of theory, all except

for level one: Social theory. Williamson (2000) claims that institutions are grounded in society, based on their degree of, “embeddedness: informal institutions, customs, traditions, norms religion.” (p. 597). But exactly how these factors direct or influence institutional growth is as of yet unidentified by proponents of NIE.

The salient factor in a unified theory of development is at what point do societies transition from Level 1 to Level 2. While this question has perplexed economist over the years and been left to a “spontaneous” (Williamson, 2000, p. 597) occurrence that is unable to be accurately calculated, it is the central theme of rural development scholarship. In order to better understand the extemporaneous nature of institutions we must examine the concept of *spontaneous order*.

Figure 1: NIE Nested Levels, replicated from Williamson 2000



Spontaneous order is the presumed establishment of organizational behaviours which evolve from normative culture. Hayek (1973) argues that spontaneous order is predicated upon the “discovery that there exist orderly structures which are the product of the action of many men but are not the result of human design . . . they are the outcome of a process of evolution whose results nobody foresaw or designed.” (p. 37) Spontaneous order is a central tenant of Hayek’s economic theories on economic and social behaviourism and is heavily influenced by the works of Adam Smith as well as other economic philosophers of the Scottish Enlightenment (although, perhaps erroneously): spontaneous order arises through the indeliberate action of one’s individual self-interests (Petsoulas, 2001). It is analogous to Adam Smith’s (1776) metaphor of the *invisible hand*. The assumption that institutions are the result of spontaneous order – *order that is not a product of human design* – removes any ability to regulate or mitigate its creation. While this interpretation of order suites Hayek’s opposition to socialist governance and economic liberty as well as his call for the

decentralized control of market mechanisms, it creates an impenetrable barrier for rural community development:

Since a spontaneous order results from the individual elements adapting themselves to circumstances which directly affect only some of them, and which in their totality need not be known to anyone, *it may extend to circumstances so complex that no mind can comprehend them all* [emphasis added] (Hayek, 1973; p. 41)

Williamson (1975)³ was heavily influenced by the economic philosophy of Hayek, and this has undoubtedly inspired Williamson's (2000) explanation of the nested nature of NIE (see Figure 1). The problem with this is that Hayek (1975) is writing in support of free market price mechanisms and their usefulness in solving the problem of bounded rationality. At the same time Hayek dispels the benefit of centralized planning and the creation of welfare policy in remediating social injustice. Spontaneous order allows for a free society, not a society that possesses material equality. If institutions are a result of, and nested in, order which occurs spontaneously, they cannot be successfully mitigated vis-à-vis central planning offices or development schemes, at least not in any infantile state. This has allowed for a paradox of economic development which is based on NIE: new development efforts cannot take hold because the spontaneous nature of institutions has already found those underdeveloped areas unfit for success; furthermore, because institutions are a result of spontaneous order and not planned policy, new institutions built as a result of centralized development schemes cannot be sustained.

The paradox between the theory of spontaneous order and development efforts is not altogether new; Bromley (1998) alludes to it in referencing the premeditated nature required of sustainable development efforts. After all, sustainable development must meet the needs of the present society without impeding on the needs of future generations (Bruntland, 1990), and as such must be planned with the future societies in mind. However, in this paper an alternative to spontaneous order in the creation of institutions is presented: collective order is not spontaneous in nature but is the result of charismatic leadership, which itself is spontaneous or of supernatural origin. The following paragraphs contextualize this argument. But first, the argument for the influence of traditional sociological theories on how societies evolve must be made. The following paragraphs attempt to do so –we start with the Weberian rationale.

3. Weberian Bureaucracy

While NIE was beginning to take hold in the mid-20th century, Max Weber – one of the founding fathers of sociology – wrote his seminal work on what can be called institutional governance in the late 19th century: *Characteristics of Modern Bureaucracy*. Weber (2009) believed that the governance of firms, organizations, or institutions is organized most efficiently in the form of a bureaucracy.⁴ He lamented

³ It is Williamson's (1975) *Markets and Hierarchies* which first coined the term *New Institutional Economics*. He states this in the first sentence of the first page of the seminal text, "A broadly based interest among economists in what might be referred to as the 'new institutional economics' has developed in recent years." (p.1)

⁴ Williamson (1973) may or may not have been referring to Weber's work on bureaucracy when he said, "The advantages of hierarchy for communicating purposes are reasonably obvious and have been

that, in the highest order of bureaucracy, humans are reduced to mechanisms operating in a machine, run by calculated order, an inescapable iron cage. Weber viewed higher ordered bureaucracies as harmful apparatuses, which dehumanized market participation that once depended on trust and social reciprocity. Weber's views on the destructive nature of pure bureaucracies on social reciprocity is of diminutive importance to us in this paper; however, it is worth mentioning that this rational approach to organization is what allows firms to have lower transaction costs when juxtaposed with sub-contracting, and, ultimately, exist.

Bureaucracy, in the Weberian sense, is the natural order of development. That is, as societies move from a state of order based on societal norms and reciprocity to being more highly structured with a diverse division of labour, they are naturally inclined to form bureaucracies. Weber goes further in arguing that bureaucratic order, once established, is one of the hardest social structures to change; he states:

Once it is fully established, bureaucracy is among those social structures which are the hardest to destroy. Bureaucracy is *the* [sic] means of carrying 'community action' over into rationally ordered 'societal action.' Therefore, as an instrument for 'socializing' relations of power, bureaucracy has been and is a power instrument of the first order – for the one who controls the bureaucratic apparatus.
(p.75)

In this instance, Weber touches on the very question that puzzled Douglas North (1991). Why do some institutions, although failing, and which should have been eliminated vis-à-vis market forces, still exist? Before this can be addressed, a case must first be made for why rural matters. Staying within the Weberian rationale, we rely on the work of Ferdinand Tönnies.

3.1 Gemeinschaft and Gesselschaft

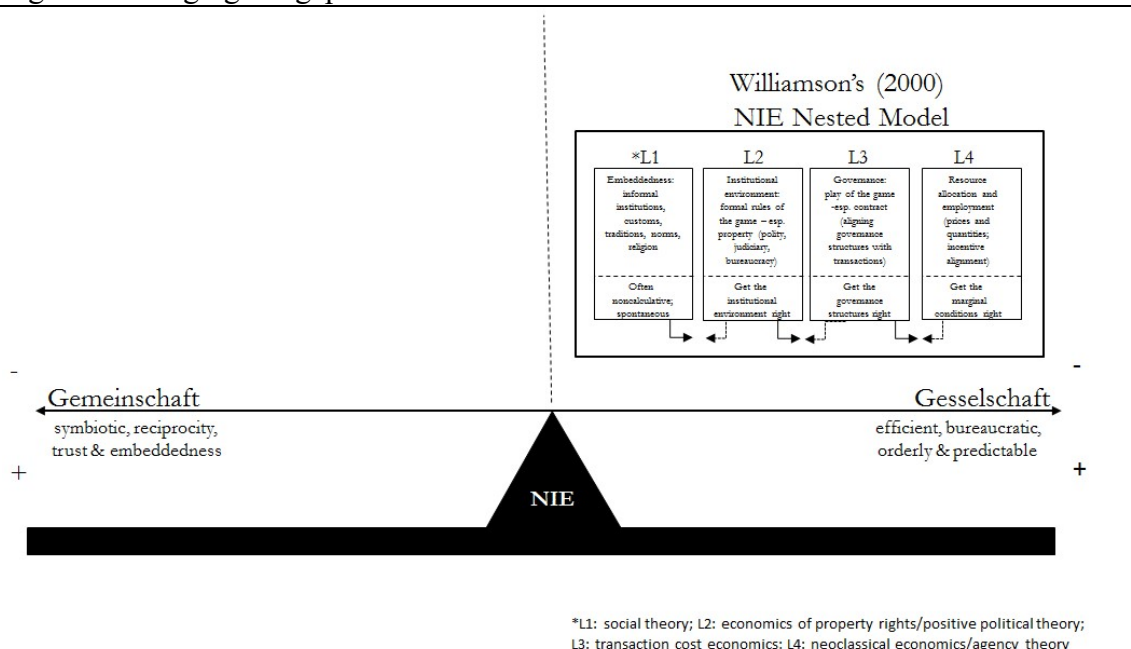
Tönnies first published his treaties on the mechanics of social development, *Gemeinschaft und Gesselschaft*, in 1887 [later revised]. Tönnies (1887) introduced a social dichotomy in which social order is first rooted in family relationships [power exists and is translated via paternal mechanisms]. Known as *Gemeinschaft*, this stage of community exists prior to a more structured and efficient society, which Tönnies referred to as *Gesselschaft*. *Gemeinschaft*, or the early stages of social interaction, is less understood, in some respects, than its counterpart *Gesselschaft*. The peculiarities of *Gemeinschaft* societies are not paramount to this paper's thesis. Rather, by framing our argument within this context, the natural social evolution in which Weber was concerned with is more apparent.

Figure 2 depicts a convergence of the Weberian social typology, which is based on Tönnies' theory of the social dichotomy *Gemeinschaft* and *Gesselschaft*, and Williamson's (2000) model of NIE. Within this converged model, NIE sits in the centre of the *Gemeinschaft/Gesselschaft* typology, acting as a fulcrum, which, when crossed, tips societies towards a state of *Gesselschaft*. Once here, institutions become their most

developed elsewhere." (p. 322). Nevertheless, the two seem to be in agreement on the efficient nature of hierarchal bureaucracies.

salient and economic behaviour can be more easily forecasted, using standardized techniques – game theory and social and economic modelling. But, one can easily see that the theory is not yet unified. Hitherto, nothing which explains the transition from that of *Gemeinschaft* to *Gessellschaft* has been presented, thus a literal gap is found in Figure 2.

Figure 2: Bridging the gap



Weber was influenced by this idea and interpreted Tönnies' dichotomy as a social typology. That is, communities are thought to exist on a continuum, somewhere between *Gemeinschaft* and *Gessellschaft*. As societies move from *Gemeinschaft* to *Gessellschaft*, changes in authority and social control take place. *Gessellschaft* order, just like free market price mechanisms, is rooted in rational behaviour. On the contrary, *Gemeinschaft* order is predicated upon more intimate social ties stemming from interaction within the community. This paper has, hitherto, argued that the concerns of NIE scholars on the origins of social order and subsequent creation of intuitions mirror those of classical sociological theory. But, whereas NIE scholars leave the formation of institutions to spontaneous chance, classical social theorists have attempted to answer this vis-à-vis *a priori* reasoning. We proposed that the nexus of informal social constraints and higher order institutions can be found in the charismatic leader.

3.2 Filling the gap: The charismatic leader

Weber argued that social action happens through four primary avenues of human interaction: the rational orientation that guides a person to action in order to secure their individual needs; rational orientation to the absolute – this entails the belief in something entirely for the sake of itself; affectual orientation, or motivation through emotive drivers; and, the traditional, which is action that has grown from habit. (p.6) Within these drivers social action must also be seen as *legitimate* by those involved. Legitimacy can be upheld through an actor's own self-interest or externally influenced by tradition (i.e., a king or traditional ruler). Weber was specifically concerned with the dynamics of group leadership, which controlled group direction and action through his

power, imperative control, and the discipline of group members. However, legitimate leadership is not manifested through market mechanisms; Weber believed it is based solely on chance; it is, seemingly, a spontaneous character trait.

Weber's notion of the charismatic leader is based, in part, on the work done by Rudolf Sohm. Sohm, one of Weber's contemporaries, was a theologian concerned with the origins of non-secular power and authority; he recognized divine traits in the writings of the New Testament, which he deemed charismatic in nature (Joosse, 2014). Weber was primarily concerned with how Western societies develop through rational behaviour; charisma may be thought of as the anti-rational, or qualities that inspire discipleship, which cannot be mitigated through traditional mechanisms (i.e. taught) (Adair-Toteff, 2005). Charismatic leadership is allusive and not easily defined; it is non-calculable. Charisma is inherently spontaneous.

The Weberian notion of charismatic leadership is not altogether omitted from the foundations of NIE. Williamson's (1976) seminal work *Markets and Hierarchies* alludes to selective peer-group leadership which may result from cognitive limitations within membership. Williamson's sensible argument amounts to a group's individual bounded rationality, or individuals' ability to make decisions based on their limited understanding of their social and economic environment. This may account for the lack of democratic order in many organizations. According to Williamson:

Either productivity sacrifices must be made, by permitting inferior members to take their turn at administration, or some members of the commune must be denied administrative responsibility. Bounded rationality *differentials* [sic] among the membership thus pose peer group strains. (p. 47)

In this context one's own bounded rationality, while certainly not spontaneous, acts as a limitation or extension of one's affirmation of informal leadership. In citing work by Michels (1966) on the process of representation within trade unions, Williamson (1976) goes further to state, "... inequality of ability with respect to *knowledge and oratorical gifts* [emphasis added] contributed to the abandonment of delegate selection by rotation or lot . . . (p. 47). Here Williamson mirrors the qualifying language of Weber's charismatic leader, who states that in time of economic hardship, among others, "... natural leaders . . . have been holders of specific gifts of the body and spirit; and these gifts [are] . . . not accessible to everybody." (Weber, p. 245)

Weber's idea on the manifestation of group leadership is contingent upon the notion of charisma. That is, nascent social leadership that goes beyond the day-to-day routine of the household (patriarchy) is developed by those individuals who have the qualities which are parallel to that of a charismatic persona. This is in contrast to the efficiency of bureaucratic structures; whereas those within a bureaucracy are easily replaced, the charismatic leader has qualities that are found within him through chance (i.e., by forces which are otherworldly and thus not replicable). The identification of the charismatic leaders within communities and organizations holds the key to unlocking the first stage of Williamson's (2000) nested model and, thus, creating a unified theory of development. This is not an easy task by any means, as development practitioners lack the *a posteriori* knowledge of community history and current member behaviour. There is no means to identify the charismatic leader through any market mechanism (i.e. price mechanisms). Weber states this explicitly:

But charisma, *and this is decisive* [emphasis added], always rejects as undignified any pecuniary gain that is methodical and rational. In general, charisma rejects all rational economic conduct . . . It is the opposite of all ordered economy. It is the very force that disregards economy. (p. 21)

We therefore must rely on the empirical study of leadership to provide the answer. The study of leadership has been well documented (Bass & Stogdill, 1990), especially given its pragmatic role in firm management (Blanchard, Zigarmi, & Zigarmi, 1985; Vera & Crossan, 2004). However, the empirical study of leadership within an established business or firm is beyond the remit of this paper, as we are interested in the leadership qualities which are developed ex-ante of institutions and firms. In order to fully satisfy the criticisms which will arrive in identifying the charismatic leader's role in development, we must study areas which have not yet transitioned fully into a state of *Gesellschaft*, with its own institutions.

Charismatic qualities of leadership are noted in contemporary studies of leadership. Burns (2010) identified Weber's concept of charismatic leadership as having, ". . . fertilized the study of leadership." (p. 243) He goes insofar as to postulate that the term has been overused in popular culture and has lost much of its original meaning. Burns (2010) does acknowledge the importance of charismatic leadership - which he retitles *heroic leadership* – in times of social turmoil and vulnerability, he states:

Heroic leaders – in contrast with leaders who are merely enjoying popular favour – usually arise in societies undergoing profound crises. Existing mechanisms of conflict resolution have broken down; traditions, established authority, old legitimations, customary ways of doing things – all are under heavy strain. . . . Long-held values are ready to be replaced or transformed . . . a crisis in trust and legitimacy overwhelms the system's rulers, ideology, and institutions.

(p. 244)

Furthermore, empirical studies of charismatic leadership in organizational structures have found that charismatic leadership becomes especially important in times of uncertainty, crises, and when the task at hand is morally justified by both leaders and followers (Shamir, House, & Arthur, 1993). Within this context, the successful creation of sustainable development institutions may be understood to be greatly influenced by the charismatic leader, who emerges as source of transformation of normative institutions and whose legitimacy helps create new institutions. It is the spontaneous nature of charisma that has hitherto been attributed to the creation of institutions. Institutions are not created spontaneously – they are the result of embedded nature of charismatic leadership and its influence on social action: charisma occurs spontaneously – not institutions. Studies on the leadership qualities in rural societies offer a salient point of reference for framing the epistemological argument for the importance of charisma in development efforts. But the question of 'Why rural?' must first be addressed.

4. Rural Institutions

It has been argued that rural societies throughout [European] medieval history have benefitted from the creation of informal institutions. This is evidenced by the success of what Hopcroft (2003) called less-communal farming systems found in the medieval period of Europe: rural societies in medieval Europe that transitioned from communal agriculture (characterized by community-wide crop rotation and dependence upon the commons for livestock grazing) to less-communal systems (characterized by enclosed fields and recognition of individual property rights) were found to be more successful. This shift influenced the historical success of formalized institutions in rural Europe. When viewed through an NIE lens, less-communal areas were, according to Hopcroft (2003), more successful because the creation of property rights reduced the transaction costs involved in production.

While formal definitions of what constitutes rural are debatable – there is, perhaps, no definition of rural which will be universally accepted – rural development centres on the notion that many rural places are not able to maximise economic growth vis-à-vis the creation of institutions that formalize unique social behaviour apt for development (Harris, Hunter & Lewis, 2003). North (1995) recognised this problem in the identification of path dependency and failed institutions; he states:

With growing specialization and division of labor the tribes evolved into polities and economies; the diversity of experiences and learning produced increasingly different societies and civilizations with very different degrees of success in solving the fundamental economic problems of scarcity. The reason for differing success is straightforward. The complexity of the environment increased as human beings became increasingly interdependent, and more complex institutional structures were necessary to capture the potential gains from trade. (p. 4)

Rural places allow for a unique unit of analysis. Due to their dependence on primarily agriculturally based economies and general lack of a highly diversified labour market, they are reminiscent of societies that existed before a period time Polanyi (1944) called *The Great Transformation*. The term ‘rural’ almost always carries with it the connotation of an agrarian culture dependent on the role of agriculture in shaping the economy, although this has seen a shift in recent years (van der Ploeg, Renting, Brunori, Knickel, Mannion, Marsden & Ventura, 2000). Agriculture and farming ideologies are an important foundation of rural culture and life, even when rural economies no longer feature agriculture or value-added production as their principal source of trade (Marsden, Murdoch, Lowe, Munton & Flynn, 2005). Furthermore, new models in rural studies focus on a more holistic approach to rural theory, encompassing space and post-modern theoretical pluralism (Heley & Jones, 2012). Still, most governmental definitions of rural include population metrics; for instance, while each country may carry its own, unique set of criteria for what constitutes ‘rural,’ it is almost always based, in part, on population parameters.

The Scottish Government identifies rural as settlements that have less than 3,000 people and are within a thirty minute drive to a settlement of 10,000 or more (see <http://www.gov.scot/Publications/2005>). On the contrary, the U.S. identifies rural in a myriad of ways, which allow for a large range of population ranges anywhere from

17% to 49% of the country's total population (see www.ers.usda.gov/amber-waves) depending on which one is used. It is much easier to identify rural within population parameters in more developed countries; this, of course, gets trickier when establishing a definition of 'rural' in underdeveloped nations, where other factors like the lack of government stability in the creation of rural infrastructure and a formal marketplace may take precedence over population size alone (Chamberlin & Jayne, 2012).

It is in the rural development paradigm that relevant research on rural leadership is found.

4.1 Rural Leadership

Leadership structures in rural areas allow for a unique perspective on the study of how indigenous institutions are created. Rural development researchers recognize the importance that rural leadership has in the development process (Botes & Rensburg, 2000; Dobbs & Moore, 2002; Berner & Phillips, 2005). Positions of leadership cannot be comprised vis-à-vis formal authority alone: there must be an inclusive social structure that legitimizes leadership (Weber, 2009). Flora and Flora (1993), who, together, have contributed many influential works to rural community development, call this structure the Entrepreneurial Social Infrastructure (ESI). More precisely, communities that have an ESI conducive to an acceptance of ideas from different community members and leaders are more likely to pursue community development projects (Flora, Sharp, Flora, & Newlon, 1995). ESI is grounded in Durkheimian social capital, but its applications apply to that of Weber's charismatic leaders: communities with high levels of ESI allow for [charismatic] leadership from subset populations or a variety of niche groups – which may be represented in the larger population – to work collectively.

Rural communities have leadership structures which are not always apparent on the surface or by outside researchers. Informal leaders within communities may not be readily engaged with any development effort (Shortall, 2008) – especially if efforts are purely economic in nature. There are those within communities and development organizations who, even without any formal position, have come to a place influence. This is evident in empirical analysis of community leadership. For instance O'Brien et al. (1991; 1998) found in their analysis of community leaders in rural Missouri that there are people of high influence, which can create or halt development efforts. Community leaders were often not found in official leadership roles (i.e. a town mayor or council member) and they often had strong social ties to one another. This type of informal rural community leadership is in many ways parallel to the Weberian charismatic leader: leadership which is legitimized vis-à-vis followers [in studies by O'Brien et al. (1991; 1998) followers constitutes community members who identified *a posteriori* community leadership, thus legitimizing their role as such]; the lack of market incentives as a requisite of decision making; and the high degree social embeddedness of those identified as leaders.

Furthermore, the importance of the social embeddedness in rural leadership is contextualized in Skerratt's (2011) synthesis of contrasting literatures of conventional and rural leadership. A central conclusion of which is that [upon a review of Emery & Flora (2006); Cleaver, (2004); and, Brennan & Lullof, 2007] rural leadership is embedded not only in development projects but in all aspects of community life, she states: "This is a further extension of embeddedness – that is, leadership is not only

exercised in relation to projects, but in the many, varied, single and repeated events in a community's life . . . in which not all community interactions are viewed as necessarily productive or positive (in a developmental sense) and should not necessarily be expected to be so." (p. 96) Within this context, leadership found in development schemes goes beyond the boundaries of any project and into the community at large. That is, leadership in rural development projects must be legitimized vis-à-vis normative community interactions and ex ante to any development project.

Skerratt (2011) also identifies embeddedness as a critical component of conventional leadership theory. Conventional leadership theory goes further to include character traits of emotional intelligence or "the *ability* [sic] to engage and empower others – rather than simply transact with them." (p. 91) Those who possess a high emotional intelligence have competitive advantage over those who do not (Burns, 2010) vis-à-vis identifying and overcoming obstacles of acquiring legitimacy of followers which may arise from social interaction.

Granovetter (1985) maintains that the social embeddedness of actors in market transactions influences their decision-making process. While Granovetter asserts that social embeddedness is important throughout all transactions (including between firms and within highly ordered bureaucratic institutions), it is particularly important to a unified theory of development that is predicated on the charismatic leader. The importance of building social capital and networks in development projects has been noted by large-scale schemes in developing regions (Meador et al., 2016) and rural regions in more developed countries. This is especially the case with the EU's LEADER programme, but again, the question of exactly who benefits from rural development projects remains somewhat ambiguous: is it the local elites or marginalized groups (Schucksmith, 2000)?

Targeting the 'right' community members, who are representative of the entire community ethos, can be challenging (Dobbs & Moore, 2002). This is true for transplanted institutions, which are likely the result of top-down policy driven by non-local politicians, practitioners and academics, who seek to create linkages with locals to ensure community support. Berner and Phillips (2005) argue that this approach to development is susceptible to hijacking by those community members with self-satisfying agendas (e.g. the rich farmer who seeks further vertical integration of his farming system), the seeming anti-charismatic leader, according to the Weber (2009) definition. In many instances development efforts hinge on the targeting of the *right* kind of community participation. Even so, the nature of the *right* kind of leadership may not be conducive to development efforts: it is certainly possible that rural areas have multiple leaders of a charismatic nature (O'Brien, 1991). Any conflicting aims of charismatic leaders should be acknowledged as well as the appropriate provisions taken to ensure that charismatic leaders are encouraged to collaborate and communicate throughout the development process. But what exactly is the right kind of community participation?

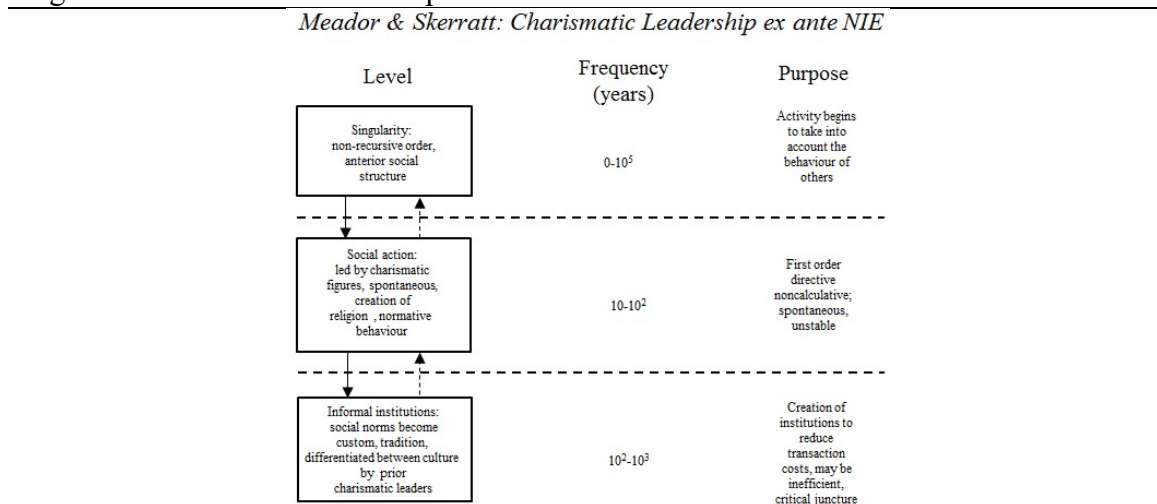
4.2 A Unified Model

If rural development hinges on the successful creation of informal and formal institutions, then community participation must include members of the community who are seen as charismatic leaders and are believed to be legitimate and embedded within the community. This is conceptualized in Figure 3: Level 1 represents a transformation from no order to the rapid expansion of order or what we have termed

social singularity⁵, whereabouts human agency is completely devoid of structure; Level 2 sees the creation of social action led through charismatic leadership – this phase of social action may be but is not necessarily a precursor to the creation of informal or formal institutions as it is completely spontaneous; the final level, Level 3, can be said to represent Level 2 of Williamson’s (2000) nested model (*see* Figure 1), and it is characterized by creation of the institutional environment.

Our model is derived from two unique theories of development; naturally, it encompasses social theory which is Eurocentric in nature. However, this model should be viewed as a Western development model, as it expands upon theory developed in Europe and the Americas. Furthermore, pragmatic application of this model of development may prove to be ill-fated if local customs and norms are not first well understood: the model is rooted in a social context, and, as such, successful implication of the model will be greatly influenced by the idiosyncratic nature of developed and developing cultures. It certainly may be the case that a social system *develops* entirely outside of and parallel to existing formal institutions (Pinto, 2004).

Figure 3: Charismatic leadership in the creation of institutions



In Figure 3, the first level represents a period of history in which early human organisation takes place. That is, social order has yet to fully evolve and is in a state of singularity. In almost all instances – save, perhaps, indigenous cultures in the Amazon Basin and Indo-Pacific islands which have yet been discovered – social singularity has already passed. While this period of human behaviour and social evolution is beyond the scope of this argument, the time frame is within the realm of plausibility: while it is inconclusive as to what triggered an out-migration of early humans from Africa about 60,000 years ago, Mellars (2006) maintains that a major increase of social organization and what may be described as economic activity occurred simultaneously with mass migration. Still, this is of no concern to this paper; rather, Level 1 exists only to show

⁵ The term *singularity* is adapted from what may commonly be known as the technological singularity. The term is attributed to the mathematician John von Neumann, who, according to Ulam (1958), stated that “. . . the ever accelerating progress of technology and changes in the mode of human life, which gives the appearance of approaching some singularity in the history of the race beyond human affairs, as we know them, could not continue.” (p.5) Social singularity represents a time of rapid and great change in a society, from which institutions emerge.

that there is a least some period of time in which social action expands rapidly yet predates the creation of institutions.⁶

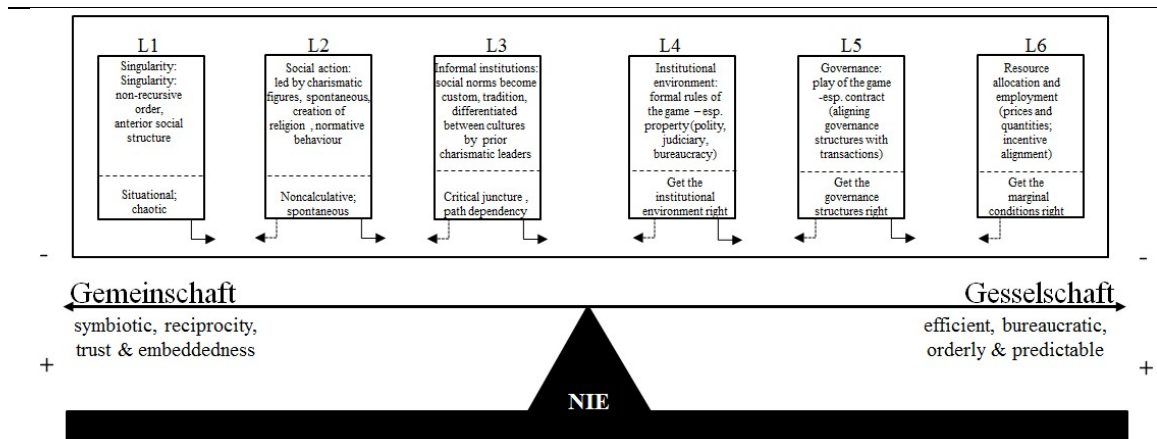
Social action thus is contained in Level 2, and is predicated on the emergence of the spontaneous charisma of leadership. Within Level 2, social organization begins to take place, but because of the limits in knowledge according to one's bounded rationality, there is a natural inclination of group members to follow leadership. Charismatic gifts of knowledge, oratorical inclination (Williamson, 1975) and "other gifts of the body and spirit" (Weber, 2009, p. 245) encourage discipleship from others. Level 2 replaces spontaneous order with normative behaviour which results from charismatic leadership – it is not yet dependent on any price mechanism or market function. This period of time is, potentially, much shorter and therefore decisive, and it explains the point at which both successful and unsuccessful institutions arise. It is shorter because all societies may be thought of to be in some state of evolution of change: new institutions are created in the most economically developed places quite often.

The third and final level, Level 3, shows the point at which normative behaviours, brought on as a result of charismatic leadership, become institutionalized. This process is analogous in many respects to Williamson's (2000) second stage or Level 2: formal rules are established and property rights become important; in addition, Coase's (1937) theory of the firm and the ability to lessen transaction costs become important to institutional success. Still, Level 3 is a critical juncture in the creation of institutions. Like Hayek's (1976) belief that no one person can understand the complexity of all possible outcomes of an organizational structure and therefore cannot choose ad hoc the best possible outcome, institutions which are created vis-à-vis normative behaviours stemming from charismatic leadership – which, by definition, is not influenced by market mechanisms – are, by pure chance and by some unknown probability, likely to exist in a state of remiss or complete failure when viewed through a neoliberal lens.

A simple modification of Williamson's (2000) nested model of institutions is presented in Figure 4. Figure 4 is an aggregation of the theories and illustrations presented in this paper. One may notice the gap in Figure 2 has been filled with the newly proposed origin or institutions based on charismatic leadership. This unified theory of development allows for an approach to institution building and development to happen by removing the spontaneous nature of order in the creation of institutions – replacing it with charismatic leadership. This unified model shows how societies evolve from a place of singularity and early *Gemeinschaft* to highly evolved institutions of *Gesellschaft* order.

Figure 4: Unified theory of development

⁶ Level one is an imperative integral to our model, as it allows for the complete transformation of development. That is not to say that this stage is particularly pragmatic to development researchers and practitioners, only to suggest that, under certain circumstances, development in a Western sense has not yet begun or cannot presently begin in a system's current state. One such state may be areas that have been recently decimated by civil war, famine, or drastic climatic and natural events.



Perhaps the salient factor of economic theory in this proposed model of development is that spontaneous order is altogether removed from its critical location in the creation of institutions. It is *ex ante* to the creation of institutions and resides in the (supernatural) qualities of the charismatic leader. Here, the spontaneous nature of charisma is less damaging because it can be mitigated and used as a tool of economic development instead of an argument against it. The argument follows that development schemes need therefore to target charismatic leadership within a community or organization as a part of its schema.

The identification of charisma in the creation and adoption of successful development projects can be seen as an extension of Woolcock's (1998) views on the paramount role society plays in the success of any development project, he states, "The social relationships in which civic and economic life is conducted matters greatly, but too often influential theorists and policy makers have regarded it as epiphenomenal, or of little consequence in shaping the fortunes of developing and transitional countries . . ." (p. 188) Though charismatic leadership goes far beyond Woolcock's (1998) call for the inclusion of social capital theory in development schemes: social capital, or trust and reciprocity found in social interaction (Putnam 1993; 1995) is a prerequisite for the legitimacy of charismatic leaders. While social capital and other forms of community capital are rightfully important for development programme success or sustainability, charismatic leadership offers a contextual process which maximizes the utility of social capital.

Conclusion

It has been argued here that the spontaneous order of governance and the creation of formal and informal institutions are not spontaneous at all. The case has been made that a pragmatic gap exists in NIE whereabouts no previous connection could be made between the seemingly spontaneous actions in starting institutions. Weber ideology supports the notion that the spontaneity does not lie within the creation of institutions, rather, it is found within the emergence of social leadership. This shift allows for the existence of spontaneity within the theory because it is, effectively, moot. That is, spontaneity can exist because it no longer interferes with the NIE's ability to properly explain how institutions come to be or how they may be directed to emerge in less developed places. Because spontaneity is *ex-ante*, NIE can be said to be a cohesive theory based on a *posteriori* knowledge. Of course, this alone does not allow for a unified theory of development.

Contemporary research on the nature of leadership in conventional texts as well as rural development programs is examined and found to support the notion that embedded social structure and leadership is critical to development success (Botes & Rensburg, 2000; Dobbs & Moore, 2002; Berner & Phillips, 2005; Burns, 2010). Legitimate rural leadership will not always be apparent to outsiders and in many instances stems from a deeper embeddedness within the community. It therefore must be sought *ad hoc* prior to the start of a development project. Furthermore, technological advancements will undoubtedly lower the transaction costs for rural development in the future.⁷

It is, therefore, argued that the creation of indigenous or transplant of existing institutions is contingent upon the Granovetterian (1985) idea that all market transactions are rooted in social embeddedness of leadership, and rural development institutions are created or successfully adopted vis-à-vis the inclusion of charismatic leadership. Because, as we have argued, charisma is the result of spontaneous action, it cannot be taught. Therefore, development efforts should specifically seek to identify and target charismatic leadership in rural communities; that is, charismatic leadership should be sought out *ex ante* to any development project and enticed or incentivised to participate and provide guidance to the project.

Elinor Ostrom (2000; 2014) maintains that by viewing institutional growth as a natural result of evolutionary processes, akin in numerous ways to biological evolution, many of the problems found between Olson's (2009)⁸ pivotal work on collective action theory and empirical observations from field and economic experiments are solved. Furthermore, she hints at the importance of leadership in the very early stages in successful economic development institutions, she states, "Successful self-organized resource regimes can initially draw upon locally evolved norms of reciprocity and trustworthiness and the likely presence of local leaders in most community settings." (p. 149, 2014). Our theory on charismatic leadership fits squarely into a theory of evolutionary economics and community development: If development institutions are, in fact, a product of evolutionary processes (Greif, 2014), then they must be susceptible to some process of artificial selection. Within this framework, charisma may be seen as a desirable social mutation, which can be mitigated but not created vis-à-vis policy, a process that, we argue, may also be perceived as analogous to artificial selection.

The spontaneous creation of institutions vis-à-vis the charismatic leader does in fact take a great deal of time – decades, centuries, millennia. However, because charismatic leaders are likely to be continually present in communities, the process of purposely selecting them for participation in projects should overcome issues of time and increase success rates.

Future studies of charismatic leadership and institutions may include some investigation into the new community resilience literature (Skerratt, 2013), as it includes an approach

⁷ The availability of superfast broadband in rural areas has the potential to greatly impact how institutions progress and impact rural development efforts. While the evidence on the recent availability of superfast broadband and its impact on rural institutions are not yet definitive, it will likely influence the role that charismatic leadership has in projects; technological advancement certainly merits future study in relationship to institutions and rural development.

⁸ Olson's *The Logic of Collective Action* was originally published in 1965 and challenged many of the contemporary ideas of collective action, mainly, that collective groups could accomplish group goals merely by having similar aims.

for promoting proactive agency from within existing social structures as a means for increasing the probability of programme success. The availability of superfast broadband and other technological advancements to rural areas, which lower the transaction costs associated with collective action, may allow for the emergence of charismatic leadership to occur virtually, transcending traditional spatio-temporal barriers.

Future empirical studies on the theory of charismatic leadership and its impact on development projects must be mindful in the accounting of the spontaneous nature of charisma. Mixed methodological approaches that employ quasi-experimental design may be implemented to measure the effect, size and direction of charismatic leadership on development projects. However, future studies on charismatic leadership should also be mindful that charisma is likely somewhat of a fragile social characteristic (although it has yet to be empirically studied, charismatic characteristics may be susceptible to a type of economic hijacking by those who wish to steer development efforts in an exclusionary direction). Participants in studies of the effect of charismatic leadership on rural development projects must be left unaware of any information which may influence or bias their behaviour – this includes vanity.

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